FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms China Taiping Insurance Group's IDR at 'A'; Outlook Stable

Fri 07 May, 2021 - 9:29 AM ET

Fitch Ratings - Hong Kong - 07 May 2021: Fitch Ratings has affirmed the Long-Term Issuer Default Ratings (IDR) on China Taiping Insurance Group Ltd. (TPG), China Taiping Insurance Group (HK) Company Limited (TPG (HK)) and China Taiping Insurance Holdings Company Limited (CTIH) at 'A' (Strong).

Fitch has also affirmed Taiping Life Insurance Company Limited's (TPL) Insurer Financial Strength (IFS) Rating at 'A+' (Strong) and the IFS Rating of Taiping Reinsurance Company Limited (TPRe) at 'A' (Strong). The Outlook on all the ratings is Stable.

Fitch considers TPL and TPRe as 'Core' and 'Very Important' to TPG, respectively, under the agency's group rating methodology. TPL's rating is based on the agency's evaluation of TPG's credit profile as a whole, and TPRe's rating reflects its own Standalone Credit Profile (SACP).

Feedback

KEY RATING DRIVERS

TPL's rating reflects the benefits of TPG as a state-owned Chinese insurance group, which are reflected in a two-notch uplift to the group's SACP of 'a-'. TPG is 90%-owned by China's (A+/Stable) Ministry of Finance, which is likely to extend support to TPG in times of stress, in Fitch's opinion. The remaining 10% is held by China's National Council for Social Security Fund.

TPG's SACP reflects its weakened risk-based capitalisation and high investment risk, balancing its 'Strong' financial performance and 'Favourable' business profile.

The group's capital strength, in terms of the Fitch Prism Model score, declined to the lower end of the 'Adequate' level by end-2020, from well into 'Adequate' at end-2019. This was due mainly to the rise in investment risk. The group's consolidated investment risk is driven by TPL, which has increased its investments in risky assets, mainly stocks, equity-type investments and long-term equity investments. TPL's exposure to risky assets remained high at above 2x of its capitalisation. This may lead to higher asset impairment when the investment environment is more volatile. The local comprehensive solvency ratios of TPG and TPL were 215% and 213%, respectively, at end-4Q20.

TPG's consolidated financial-leverage ratio was 22% at end-2020 compared with 23% at end-2019. Fitch expects the ratio to remain commensurate with the guideline for 'A' rated insurers in the next 12 months, unless there is a significant rise in debt issuance on a consolidated basis that is well in excess of its current level.

TPG's financial performance remained 'Strong' despite challenging market conditions caused by the coronavirus pandemic. Its return on equity (ROE) and pretax return on assets (ROA) were 7.3% (2019: 12.3%) and 1.6% (1.8%), respectively, in 2020. An improvement in life net profit was offset by a decline in non-life and reinsurance earnings due to major claims.

TPL's strong profitability was reflected in its pretax ROA of 2.2% in 2020 versus the average ratio of 2.0% during 2018-2020. Nonetheless, the insurer's new business value (NBV) dropped 21.5% by end-2020 from a year earlier due to the pandemic's impact on sales activities, although it rose 35% in 2H20 because of a robust recovery in the agency channel. This led to the NBV margin narrowing to 24.6% from 28.4% in 2019. TPL's ability to improve the productivity of its agency force and expand high-margin sales will drive sustainable margins.

Fitch considers TPG's business profile as 'Favourable' compared with that of other Chinese insurers, and scores its business profile at 'a+' under the agency's credit-factor scoring guidelines. The ranking reflects the group's strong brand recognition, and diversified business and geographical mix through its operating units in mainland China, Hong Kong and other parts of the world. The diversity of its premium sources mitigates market event risk in a single sector. TPG's life, property and casualty, and reinsurance segments generated approximately 74%, 17% and 7%, respectively, of total premiums in 2020.

The affirmation of TPRe's IFS Rating reflects its strengthened capitalisation, business growth initiatives and strong underwriting performance, despite the pressure in 2020.

TPRe's capital base expanded to support growth after the completion of new share issuance to strategic investor, Ageas Insurance International N.V. (Ageas, IDR: A/Stable), in November 2020, which holds about a 25% stake in the reinsurer. Its regulatory solvency ratio improved to 354% by end-2020, from 272% a year earlier.

TPRe, which is headquartered in Hong Kong, maintains a presence in its core markets within the Asia Pacific, mainly Greater China. Fitch believes the reinsurer is well-positioned to benefit from the business opportunities created by the financial integration of the Guangdong-Hong Kong-Macau-Greater Bay Area. In addition, the strategic partnership with Ageas may support TPRe's long-term growth in Europe and other Asian markets.

TPRe reported net losses in 2020 because of higher claims and asset impairment losses in light of the increased credit risk amid the pandemic. The combined ratio of its non-life portfolio rose to 103.3% from 97.6% in 2019 due to a deterioration in the loss ratio, partly driven by a windstorm in Iowa, US, and commercial property fire losses in Japan, South Korea and Taiwan. The average ratio stood at 99.5% during 2018-2020, remaining commensurate with an IFS 'A' rated reinsurer.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A significant change in shareholding that results in the Ministry of Finance losing its controlling interest in TPG and CTIH, or a downgrade of China's Long-Term Local-Currency IDR (A+/Stable);

- Diminishing perceived significance of TPG in China's insurance sector, in Fitch's view.

Factors that could, individually or collectively, lead to lowering the SACP:

- TPG fails to improve the Fitch Prism Model score to marginally 'Strong' on a sustained basis;

- The group's consolidated financial-leverage ratio above 35% consistently;

- A sustained deterioration in the risky-asset ratio;

- Pretax ROA falling below 1.0% and deterioration in the underwriting profitability of TPG's property and casualty and reinsurance operations, with a combined ratio persistently above 102%.

For TPRe:

- Failure in maintaining its Fitch Prism Model score well into 'Strong' on a sustained basis;

- The combined ratio above 97% consistently.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- An upgrade of China's sovereign rating

Factors that could, individually or collectively, lead to raising the SACP:

- TPG's Fitch Prism Model score improving to a level well into 'Strong' and the consolidated financial-leverage ratio below 24% on a sustained basis;

- The group's ROE consistently exceeding 11%.

For TPRe:

- A sustained Fitch Prism Model score well into 'Very Strong';

- The combined ratio below 97% consistently.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
China Taiping Insurance Group Ltd.	LT IDR	A Rating Outlook Stable	Affirmed	A Rating Outlook Stable
China Taiping Insurance Group (HK) Company Limited	LT IDR	A Rating Outlook Stable	Affirmed	A Rating Outlook Stable
China Taiping Insurance Holdings Company Limited	LT IDR	A Rating Outlook Stable	Affirmed	A Rating Outlook Stable
Taiping Life	Ins	A+ Rating Outlook Stable	Affirmed	A+ Rating

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Stella Ng
Director
Primary Rating Analyst
+852 2263 9615

Feedback

Fitch (Hong Kong) Limited
19/F Man Yee Building 60-68 Des Voeux Road Central Hong Kong

Terrence Wong
Senior Director
Secondary Rating Analyst
+852 2263 9920

Jeffrey Liew
Senior Director
Committee Chairperson
+852 2263 9939

MEDIA CONTACTS

Alanis Ko
Hong Kong
+852 2263 9953
alanis.ko@thefitchgroup.com

Peter Hoflich
Singapore
+65 6796 7229
peter.hoflich@thefitchgroup.com

Wai Lun Wan
Hong Kong
+852 2263 9935
wailun.wan@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Insurance Rating Criteria (pub. 15 Apr 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.7.2 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

China Taiping Capital Limited	EU Endorsed, UK Endorsed
China Taiping Insurance Group (HK) Company Limited	EU Endorsed, UK Endorsed
China Taiping Insurance Group Ltd.	EU Endorsed, UK Endorsed
China Taiping Insurance Holdings Company Limited	EU Endorsed, UK Endorsed
China Taiping New Horizon Limited	EU Endorsed, UK Endorsed
Taiping Life Insurance Company Limited	EU Endorsed, UK Endorsed
Taiping Reinsurance Company Limited	EU Endorsed, UK Endorsed

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, THE FOLLOWING HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

READ LESS

COPYRIGHT

individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.
For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001
Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Insurance Asia-Pacific Hong Kong China
